

# **The MBP Guide to New Product Development**

## ***Synthesis Report on Field Tests***



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### **MICROENTERPRISE BEST PRACTICES**

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# The MBP Guide to New Product Development

## Synthesis Report on Field Tests

by

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## INTRODUCTION

The following report summarizes the experience and lessons learned from four independent field tests of *The MBP Guide to New Product Development* developed by Monica Brand under the auspices of the U.S. Agency for International Development (USAID) for the Microenterprise Best Practices (MBP) Project. Part I summarizes the process of the new product development (NPD) field testing, including the methodology used and the technical support provided. Part II of the report summarizes the results of the field tests. It is organized by the respective phases of new product development undertaken by each of the four field test grantees, namely:

- # **Evaluation and Preparation Phase**—Pro Mujer Nicaragua evaluated whether to launch an individual lending product and a solidarity group loan.
- # **Prototype Design Phase**—Pro Mujer Peru/Pro Mujer Puno undertook market research and designed financial projections for a new seasonal loan product and an emergency savings product.
- # **Pilot-Test Phase**—BancoSol in Bolivia prepared for a pilot test of a new pawn loan product (called Sol de Oro).
- # **Product Launch Phase**—Kenya Post Office Savings Bank began rolling out a new streamlined savings product (called Bidii) after an initial pilot in a main branch.



## PART I: NPD FIELD TEST PROCESS

### FIELD TEST PURPOSE AND PARTICIPANTS

The purpose of the field tests was to test the methodology presented in *The MBP Guide to New Product Development* and determine the guide's usefulness as a self-instruction manual for microfinance institutions (MFIs). To make the field test robust, MBP worked with four very distinct MFIs to apply the process laid out in the guide so as to structure the design and testing of products in their respective markets.

MBP selected the MFIs through a competitive grant program, using the following criteria:

- # **Experience:** number of years in operation, size of portfolio, loan volume, number of clients, level of operational sufficiency, experience with new product development, and diversity of product offerings;
- # **Institutional and management capacity:** number and productivity of loan officers, description of management information system (MIS) capacity, qualifications of project site manager and other personnel, and track record in implementing microenterprise programs that have achieved scale, depth of outreach, and financial viability; and
- # **Market readiness:** steps already undertaken to evaluate the opportunity for new product development, and a description of the product idea and characteristics of the client segment to which it will be targeted.

MBP provided grant funds, ranging from US\$29,000 to US\$50,000, to the MFIs to defray the costs of participating in the field test. The MFIs could use their grant funds to help cover the costs of activities related to any of the four phases of new product development. MBP did not, however, subsidize the full range of costs in developing new products; the MFIs contributed significant resources of their own to the field tests.

As a condition of participating in the field tests, each MFI agreed to undertake its field test within the framework outlined in the NPD guide, identify a product development team to work with MBP, document its experience with and reaction to the guide, and share with the field what it learned from the process.

The four field tests proved to be very rich testing grounds for the NPD guide because the participating MFIs faced distinct market environments, from a monopoly (Pro Mujer Peru) to oversaturated markets (Pro Mujer Nicaragua and BancoSol in Bolivia). The four MFIs also were at different levels of institutional development, from young nongovernmental organizations (NGOs) (Pro Mujer Peru and Pro Mujer Nicaragua) to seasoned, for-profit banks (BancoSol) to quasi-governmental entities (Kenya Post Office Savings Bank). These differing institutional structures and market environments presented unique challenges and

opportunities in the different phases of the new product development process, which are highlighted in Part II.

## **ORIENTATION WORKSHOPS AND ONGOING SUPPORT**

Because of the differences between the participating MFIs, the field test design included an initial, one- to two-day orientation workshop for each MFI, led by the author of the NPD guide, Monica Brand. The workshop addressed the process of new product development espoused by the guide, as well as key success factors and potential pitfalls in new product development. This orientation was a synthesized version of the one-week new product development course Ms. Brand created based on the guide.

Each workshop was followed by hands-on technical assistance from Ms. Brand to help the field testing institution involved set up the systems and procedures necessary for a structured product development process. These setup visits lasted one week each, and were followed by ongoing interactive support by telephone, e-mail, and even in person (if Ms. Brand was in the field testing country on another assignment). The purpose of these follow-up interactions was to monitor the progress of the field tests, clarify questions and concerns about the steps outlined in the guide, and mentor the local product development teams as they worked through the challenges and obstacles they encountered.

## **REPORTING RESPONSIBILITIES**

The field testers were asked to complete a series of documents, summarized below, so that the MBP project could capture their feedback on the NPD guide:

- # **Institutional diagnostic** (see Annex A)—This diagnostic was meant to assess whether an institution had the *minimum* capacity required to design and test new products. Additionally, it served to orient users of the guide as to where they were in their ongoing product development process so they could take full advantage of the document. For example, some MFIs had already completed some of the early phases of the guide—such as Phase 2, designing the product prototype—and thus could skip to the appropriate phase in the process corresponding to their stage of product development. This diagnostic proved to be so critical to the process that it was expanded upon and incorporated directly into the final version of the guide as a new phase, Phase I, evaluation and preparation.
- # **Phase evaluation** (see Annex B)—MBP asked the field testers to evaluate each of the phases in the guide as they completed them. For those phases that the field testing institution had already completed before receiving the guide, MBP still asked that the institution review the guide and comment on how the process outlined therein reflected the field tester's experience in product development. The field testers were asked to comment on both the format of the guide and the content of the process.

- # **Process evaluation** (see Annex C)—This questionnaire allowed the field testers to evaluate the support they received during the pilot testing of the NPD guide. They were asked to comment on all aspects of the technical assistance received, including the orientation workshop and follow-up phone calls, e-mails, and, in some cases, additional in-person visits during the process of product development.
- # **Any five worksheet exercises** contained within the NPD guide. The original guide contained 35 exercises, and although MBP welcomed any feedback from the field testers on all of them, participants were required to complete and submit five of the exercises that they found particularly useful. The field testers were also invited to submit a list of those worksheets that were not helpful or were confusing.

### EVALUATION OF PROCESS

The field testers seemed unanimously positive about their experience with the new product development process, although they definitely confronted challenges along the way. They particularly liked the practical nature of the reporting responsibilities, which forced compliance but offered added value for the field testing institution (such as the exercises in the NPD guide). They also liked the experimental nature of the grant, and the encouragement to be forthcoming about mistakes and difficulties they encountered along the way. The live presence of technical support was invaluable in helping the pilot MFIs understand and optimize the use of the MBP Guide, even though it was designed as a stand-alone document. In fact, working directly with the pilot test practitioners helped the author identify points in the guide that needed clarifying and eliminate elements that were less valuable. The presence of a consultant also assisted the MFIs in addressing the capacity and strategic issues related to product development, and to help institutionalize the process laid out in the Guide.



## **PART II: NPD FIELD TEST RESULTS**

Most of the field testers have advanced from the specific phases with which they are associated below, and, accordingly, they have used the different parts of the NPD guide. To ensure in-depth review and analysis, however, the field testers focused their efforts and comments on the specific phase of the new product development process indicated by the institutional diagnostic they were required to complete at the commencement of the test. Accordingly, the report organizes by new product development phase the lessons the MFIs learned.

### **EVALUATION AND PREPARATION**

#### **Background Situation**

**Pro Mujer Nicaragua** is a young NGO facing a mature marketplace. As part of an international network of MFIs dedicated to providing comprehensive services to poor women in developing countries, Pro Mujer Nicaragua started its operations in 1996 using an established, village banking lending methodology. Though its methodology was more supply-driven than client-led, Pro Mujer Nicaragua filled a niche in the market that was not being well-served by existing MFIs, and thus enjoyed strong growth in its early years.

Increasing competition and a deteriorating portfolio were the main impetus for new product development for Pro Mujer Nicaragua. The competition has come from a combination of new players entering the market (such as FINCA, which serves a similar niche as Pro Mujer) and new product offerings from existing competitors (such as the individual loan products that FAMA began providing to graduates of its solidarity loan products). The decline in portfolio quality has resulted from clients who have deserted the MFI to explore these new, competitive choices, as well as from some internal problems resulting from staff turnover and weak internal controls.

Because of this situation, the senior staff of Pro Mujer Nicaragua began to consider two new products they thought would help them improve both their competitive position and their portfolio quality. These two products, which were already being offered in the market by competing MFIs, were solidarity group products and individual loan products.

The process of product development described below focused primarily on the first phase, evaluation and preparation, to determine whether these particular products were a good strategic fit with the institution. Because of the time pressures presented by the competitive situation, however, Pro Mujer Nicaragua embarked on a “parallel” product development process whereby subsequent phases (such as prototype design and pilot testing) were initiated before the first phase was complete.

## **Process Undertaken**

The primary institutional evaluation Pro Mujer Nicaragua undertook was a SWOT (strengths, weaknesses, opportunities, threats) analysis, as well as the identification of institutional resources. The results of the SWOT analysis encouraged the development of the individual and solidarity group products, primarily as a way to stay competitive. To confirm this hypothesis, Pro Mujer Nicaragua decided to undertake market research in order to better understand the competitive and financial implications of introducing these new products.

### *Market Research*

The market research consisted of two main methods: focus groups and individual interviews. The focus groups used two participatory exercises based on the MicroSave methodology, though there was no formal training done for the facilitators. The interview questionnaire was prepared by Pro Mujer staff members and long-term consultant Nancy Natilson rather than a professional marketing firm. Both the focus groups and the interviews were facilitated and conducted by Pro Mujer staff, none of whom had received any training on appropriate methods to maintain objectivity and solicit results.

### *Financial Projections*

In addition to performing the break-even analysis exercise in the NPD guide, Pro Mujer Nicaragua developed financial projections based on some initial assumptions about product design. These projections are more part of the evaluation and preparation phase than the prototype design phase because they were developed to determine how the new products would affect institutional sustainability.

## **Key Results**

### *Product Refinement versus New Product Development*

The most important result of the new product development process for Pro Mujer Nicaragua was a temporary “no go” decision on the individual lending product and the decision instead to refine the existing village banking methodology. For example, one of the frustrations with the village banking product that was driving clients to demand individual credit was the available loan size. In response, the product development team, after undertaking a simple product costing analysis and reviewing the portfolio breakdown by loan size, increased the maximum ranges for each loan cycle of Pro Mujer’s standard product. Another issue that had prompted the exploration of individual loans was the type of collateral preferred by clients—household goods, rather than personal or solidarity group guarantees. Though the market

research revealed that the target clients had limited assets to offer as guarantees for their loans, Pro Mujer Nicaragua decided to expand its policies regarding what it would accept as a guarantee for its village banking product, thereby lessening the competitive disadvantage this product had compared with individual loans. Furthermore, Pro Mujer decided that it probably will not launch its other new product idea, solidarity group loans, either.

### *External Factors*

Another reason Pro Mujer Nicaragua decided not to go forward with the individual lending product was a dramatic change that occurred in the macroeconomic environment during the new product development process. A usury law was passed capping interest rates at 16.6 percent, significantly below the interest rate previously charged by Pro Mujer (and most of its competitors). Though there was a loophole in the law permitting the levying of loan commissions and other fees, there could be no guarantee that the regulators would not modify the legislation to establish a true usury law. Given this destabilizing change, Pro Mujer decided to focus on adjusting its current product offerings and preparing itself accordingly before introducing the changes associated with a new product offering.

### **Lessons Learned**

The version of the NPD guide used in the pilot test contained a very abbreviated section on evaluating new product ideas. The importance of enhancing this section became clear from the pilot test in Nicaragua, as the competitive pressures there accelerated the time line and caused some holes in the new product development process, as described below.

### *Target Market*

During the field test, it became clear to Pro Mujer Nicaragua that the competitive pressures in the country precluded a thorough analysis of and/or consensus on the parameters of the new products. For example, at the time the market research was undertaken, there was no clear understanding of whether the individual lending product would be offered only to successful graduates of Pro Mujer's traditional village banking product, or whether it would be available to first-time borrowers as well. This lack of clarity related to disagreements regarding Pro Mujer's strategy and vision for the organization. Interestingly, it was in the debate over the appropriate target for the new individual lending product that Pro Mujer discovered that its initial target market was poorly defined. The "poorest of the poor" focus that characterized earlier Pro Mujer programs was inappropriate for Nicaragua, staff realized, because that market could never be served sustainably. This confusion over something as fundamental as target market clearly made it difficult for Pro Mujer to have new products that were well-aligned with the institution's strategy. As a result of this eye-opening debate, the author expanded Phase I of the revised NPD guide into a full-fledged discussion of evaluation and preparation for new product development.

### *Market Research*

Pro Mujer Nicaragua's market research suffered from a lack of professional guidance in both the design and execution of the various studies undertaken. First, as already mentioned, neither the focus groups nor the one-on-one interviews were targeted to a specifically defined market, making it difficult to establish the parameters for the sample of who would participate. In addition, the survey had all open questions, making it difficult to tabulate the results for easy analysis. Finally, the facilitators tried to undertake too many participatory exercises in each focus group, as they did not understand well the mechanics of the tools, leading to confusing (and sometimes contradictory) results.

### *Institutional Readiness*

Pro Mujer Nicaragua's executive director had strong views on the appropriateness of the new product ideas, but the opinions of the rest of the staff were unclear. Moreover, problems existed within the institution that were only marginally related to product design. For example, there had been internal control issues, in terms of both the consistency with which Pro Mujer's standard methodology was applied and outright fraud. Additionally, there were portfolio quality problems that were being addressed with special incentive programs while the new product development process was under way. The point is that product development does not happen in isolation; before expanding the scope of an MFI, one should have a good understanding of what is happening overall in the institution. For example, it was unclear whether Pro Mujer's portfolio quality problems were the result of client dissatisfaction with the institution's products, poor incentive systems, macroeconomic issues, other factors, or some combination thereof. In response, the author helped design an exit survey to enable Pro Mujer to begin to understand the cause of its client desertion. In reality, however, such a diagnostic tool should be used for input to rather than output from product development.

### *Competitive Advantage*

As was previously mentioned, the main impetus for the development of Pro Mujer Nicaragua's two new products was a sense that the institution's existing offerings were not competitive. It was unclear, however, which of its competitors Pro Mujer was trying to differentiate itself from with these new products. In fact, part of the reason Pro Mujer probably will not roll out the solidarity group loan product is that the institution does provide sufficient differentiation from its current product. Additionally, it did not appear that the new products, especially the individual loan product, were particularly well-aligned with Pro Mujer Nicaragua's core competencies.

## PROTOTYPE DESIGN

### Background Situation

**Pro Mujer Peru/Pro Mujer Puno** is a new program (first loans disbursed in April 2000) facing a monopoly situation in its current market. The market's fast growth created the need for additional products to expand to surrounding cities, such as Juliaca, as Pro Mujer began saturating its demand in Puno. Additionally, Pro Mujer Puno discovered potential improvements to its boilerplate, a village banking methodology, that it wanted to evaluate. Pro Mujer was apprehensive about this latter product development effort because the institution attributed its excellent portfolio quality (with near zero delinquency) to the strict parameters of the MFI's methodology. Because it was young and still in an entrepreneurial stage, however, and because it was in a less competitive market, Pro Mujer Puno was willing to experiment with modifications to the methodology to see whether such changes would improve customer satisfaction.

The main limitations of Pro Mujer's standard village banking methodology concerned the obligatory savings requirement (especially during emergencies) and related obstacles to fast-growing, entrepreneurial members. The savings restrictions created a difficult situation for women because they could not access a portion of their liquid assets when they faced personal emergencies. As a result, there were women abandoning the program, as well as entire groups prepaying their loans just to access their savings. This trend created financial problems for Pro Mujer Puno, and also was inconsistent with the institution's mission to help empower women, particularly in the crises that characterized their daily lives. This lack of access to savings created a challenge for another sector of Pro Mujer Puno's clients—the entrepreneurial *comerciantes* who wanted to take advantage of commercial events such as holidays and market fairs to increase sales. These limitations in the methodology in the face of client demand sparked an exploration of two new product ideas: a seasonal loan and an emergency savings product.

### Process Undertaken

Pro Mujer Puno used from the start a more systematized and thorough product development process than its peer in Nicaragua.

### *Market Research*

Like Pro Mujer Nicaragua, Pro Mujer Puno decided to undertake both quantitative and qualitative market research to explore the new product ideas under consideration. The main difference was that Pro Mujer Puno contracted a specialist who had experience in designing and conducting market studies. The result was apparent immediately, as the survey she

designed was clear and easy to implement and analyze. The other important improvement over Nicaragua's research design was that the Puno survey incorporated an analysis of the competition and, more important, of the intangible benefits of the products from the client's point of view.

### *Financial Analysis*

The financial analysis was similar to that undertaken by Pro Mujer Nicaragua—a simple break-even analysis coupled with monthly projections over a two-year period using a Microsoft Excel spreadsheet. The seasonal loan would not affect profitability significantly because of its short-term nature (two-week average term), though the high turnover and low cost (few lending requirements) would have an anticipated net positive effect on the institution's bottom line.

### **Key Results**

The most important result of the design phase was Pro Mujer Puno's decision to limit new product development to the seasonal loans and abandon further development of the emergency savings product. The “no-go” decision on the latter product was based on institutional considerations that outweighed the clear client demand for the product. From Pro Mujer Puno's perspective, the group savings served as a guarantee for their village banking loans. Thus, allowing clients to tap into their accumulated savings would risk the absence of recourse in the case of repayment problems. Indeed, although Pro Mujer as an institution enjoyed near perfect repayment, there was internal delinquency within groups. Pro Mujer Puno also had concerns from a mission point of view because it knew that members would find it very difficult to replenish their savings once they were tapped, which would limit the asset buildup so very important to enabling these women to break out of their cycle of poverty. Finally, Pro Mujer Puno feared that the emergency savings product would create an opportunity for loan-use fraud.

Although the seasonal loan product posed similar institutional risks to those of the emergency savings product, Pro Mujer Puno felt it could manage them effectively. The biggest risk of offering concurrent loans was the possibility that a particular sales event would yield disappointing sales and compromise the client's ability to manage the additional debt load. Pro Mujer Puno has tried to mitigate these risks through the requirements of this new product. For example, the MFI requires that a potential seasonal loan client have at least three years of experience with the standard loan product and develop a business plan related to the specific opportunity. Regarding the risk of overindebtedness, Pro Mujer Puno requires potential clients to own a house or have a fixed location in the marketplace, thinking that such tangible assets reduce client vulnerability. However, these requirements, while sound from a risk-management point of view, might work against clients' need to have quick access to credit to take advantage of commercial opportunities, as discussed below.

With the decisions on product design in place, Pro Mujer Puno decided to go forward with the pilot test of the seasonal loan. It scheduled the roll-out for late October to coincide with Dia de los Muertos (All Saints' Day in the United States), on November 1, and the Fiesta de Puno, on November 4.

## **Lessons Learned**

### *Market Research*

The importance of having specialized expertise became clear in Pro Mujer Puno's product development process. The target markets and corresponding objectives were clearly specified—that is, a new product offered to existing clients in Puno and Juliaca. Moreover, the survey was structured in such a way (multiple choice) as to easily engage clients and tabulate results. This quality design in part might account for the timely analysis and reporting of results, which was very delayed in the case of Pro Mujer Nicaragua.

Having two consultants review Pro Mujer Puno's participatory methods (MicroSave exercises) minimized implementation errors, though an important lesson was learned in the process: Effective execution of these tools requires structured training. (As a side note, ACCION International has designed a 10-day, intensive training course, including both classroom instruction and fieldwork, to build the internal capacity of MFIs to design, conduct, and interpret participatory, focus-group market research tools.)

Another important lesson regarding Pro Mujer Puno's market research is its intersection with impact studies. Interestingly, the market research specialist the institution contracted was hired in part to help Pro Mujer undertake impact research, which, while different from traditional market research, shares some of the same objectives. For example, both impact and market research are concerned with client needs and preferences with respect to financial services and are interested in how clients' personal situations and behaviors vary over time. The main difference is that whereas impact research attempts to establish a direct causal relationship between financial services and client profiles, market research is interested in all the factors that influence customer preferences and demand. The important lesson, however, is that most market research tools (surveys, focus-group discussions, and the like) are robust and flexible enough to incorporate elements of both objectives. Therefore, MFIs should not lose opportunities to garner real market intelligence when they undertake impact studies, especially as the cost of gathering this information can be minimal. (These synergies are limited, however, and one must be careful not to incorporate too many objectives and questions in any given research effort, lest the results be diluted and confusing.)

### *Alignment*

Though the process Pro Mujer Puno undertook in the initial design phase was well thought through, the analysis of the product prototype once designed was incomplete. Specifically,

certain key procedural aspects of delivering the product seemed to contradict the opportunity-driven client need the product was trying to meet. This lack of alignment between final product design and initial purpose is very common in product development efforts, because as the institution works out the operational and procedural details of delivering the product, it gets further away from the client and the impetus for developing the proposed new offering. In Pro Mujer Puno's case, the two main areas that needed to be better aligned with the product's core purpose were the application requirements and the loan tracking systems.

The seasonal loan is designed to be quick credit, with average terms anticipated to be only two weeks. For such a rapidly rotating loan, it makes sense that the application process be correspondingly agile. However, in order to mitigate some of the risks related to taking loans simultaneously, Pro Mujer Puno established somewhat onerous application requirements, such as the creation of a business plan and proof of property ownership, that can bog down the application process. With this in mind, it will be important to monitor the agility of loan delivery as well as risk mitigation during the pilot test.

The other potential alignment problem Pro Mujer Puno experienced concerned its management information system. Currently, the institution's system cannot track penalty charges. The makeshift solution to use an Excel spreadsheet to calculate these fines did not include a thoroughly defined process for how this information would be tracked and incorporated into Pro Mujer Puno's financial and portfolio reports. Again, this tracking system becomes important to the extent that this manual "patch" slows down the processing of renovations.

Pro Mujer Puno has an opportunity to gain competitive position as a client-responsive, opportune source of credit. Therefore, it is important that all aspects of its product design reinforce this message. What these inconsistencies in alignment highlight is the importance of performing continual "checks" throughout the design and subsequent phases to ensure that the product is aligned with the initial objectives, including both client preferences and institutional strategy.

## PILOT TEST

### Background Situation

**BancoSol** is a mature institution (operating for almost 10 years) that has been facing a very competitive and increasingly turbulent market. Many of its microenterprise clients—suffering from a persistent economic recession, a loss of livelihood as a result of the Bolivian drug war's eradication of cocoa plants, and overindebtedness caused by the entry of predatory consumer lenders—have begun deserting and defaulting on their loans. The result has been high rates of delinquency throughout the microfinance system in Bolivia and slow (or negative, in the case of BancoSol) growth rates. Exacerbating this situation is the negative publicity the industry has been receiving from many fronts. Debtors' associations, formed in late 1999, began calling for a moratorium on all debt payments, particularly to consumer

lenders, and began using increasingly violent means of protest to demand forgiveness of the debt of poor borrowers. The popular press became sympathetic to their plight and began defending their appeal, announcing that “microfinance’s time had passed” in Bolivia (direct quote from *La Prensa*). With its credibility and portfolio at stake, BancoSol, along with other Bolivian MFIs, began developing strategies to deal with the crisis.

In an effort to strengthen its competitive position as the only “bank” (versus *financiera*) specializing in microfinance, and to leverage the flexibility this legal distinction offers, BancoSol has been developing a variety of new products. Its new Sol de Oro offering, a pawn loan and one of the many new products the bank has developed in the past year, was designed as a direct response to its fiercest competitor, Caja Los Andes. Caja has had a pawn loan product (*préstamo prendario*) since it began operations, and the offering serves as a good tool to get clients in the door. BancoSol also hoped to exploit cross-selling opportunities with this new product, as well as offer a more streamlined lending alternative to its traditional microenterprise methodology. BancoSol also believed there was a positioning opportunity with this product because, unlike the bank’s microloan product, BancoSol could undercut the rates of Caja’s highly priced pawn loan product. (BancoSol’s higher operating costs made it impossible to match the comparatively low interest rates Caja charged on its standard individual loan products.) BancoSol hoped not only to steal potential microenterprise clients away from Caja by offering a more attractive pawn product, but also to take advantage of its competitor’s conservative growth strategy in this particular niche and capture market share.

## Process Undertaken

Pawn loan methodology involves some technical aspects that BancoSol decided to adopt rather than reinvent the wheel. It therefore hired Banco Solidario de Ecuador, which, like BancoSol, is a member of ACCION International’s network of microfinance institutions. Banco Solidario offered a 12-step transfer process that complemented the phases of the pilot test outlined in the NPD guide. Nonetheless, BancoSol had to do a good deal of groundwork to adjust the pawn loan methodology to the reality of the Bolivian market. It contracted a local marketing firm to undertake a targeted study of the potential pawn loan market in La Paz. (In accordance with the methodology outlined in the pilot test, BancoSol had decided to limit its research and testing to its branches in La Paz before expanding into other locations.)

The results of the market research were encouraging, as they showed that nearly half the market of La Paz (48.5 percent, representing more than 200,000 potential borrowers) had an express interest in the pawn product BancoSol was developing. More specifically, this group listed security and low interest high among the product’s attributes, both of which reflected BancoSol’s intended positioning with Sol de Oro, which was priced below Caja Los Andes’s competing offering. BancoSol played up the added “security” that a bank versus a *financiera* offers clients, who identified this feature as a critical attribute upon which they base their choice of pawn loan lender.

BancoSol's research into the regulatory and legal compliance of its new pawn loan product was not as encouraging, as the banking code of Bolivia (passed in the early 1920s) expressly prohibited banks from offering pawn loans. The Superintendency initially rejected BancoSol's request for exception, as there was concern over the riskiness of the product. Part of the solution came in the serendipitous coincidence that one of the candidates for the position of *tasador* (jeweler/loan officer) BancoSol interviewed was related to some senior officials at the Superintendency. This candidate was hired, and one of his first tasks on the job was to help convince regulators of the safety and soundness of the methodology BancoSol was proposing. The lobbying campaign was successful, as the Superintendency issued a special decree allowing an exception to the banking law for BancoSol. BancoSol launched its pilot in April 2001.

## Key Results

### *Systems*

This part of the pilot worked very well. In comparison with Kenya Post Office Savings Bank (see the next case study), BancoSol thoroughly tested the system before launching the pilot to make sure the processes were in working order. The result is that BancoSol was successfully able to design and implement its own management information system for the purposes of the pilot test.

### *Demand Shortfall*

The initial results of the pilot test have disappointed BancoSol, as they have fallen short of original projections. Demand has been low in terms of both the number of loans (184 versus the projected 500) and the average loan size (\$160 versus the projected \$250). The reasons include the following:

- # **Publicity:** After the initial launch of the pilot, crisis hit the Bolivian market and BancoSol in particular, as described earlier. Dealing with this crisis (getting delinquency under control) distracted BancoSol from promoting its new product. In addition to the diversion of resources, BancoSol suffered from the negative publicity levied on the industry as a whole. The initial positive image of "security" BancoSol could leverage as a bank dissipated as the industry's financial health came into question.
- # **Tasador:** What the *tasador* offered in political connections he lacked in financial analysis and computational skills. (In fact, the labor pool of trained gemologists was much more limited in Bolivia than in Ecuador.) Training him in financial analysis (necessary for loan underwriting) and computational skills (necessary for system data entry) took three months longer than expected, delaying the launch of the pilot test. The *tasador's* lack of computational competence caused delays in delivery of the pawn loan product, which tempered demand.

- # **Transaction time:** The crisis caused the bank to be overly cautious in its risk control procedures, involving many additional layers in the loan approval process. Specifically, each loan had to be approved by the branch manager and the operations department. As a result, loan processing time averaged 45 minutes, more than 50 percent longer than what BancoSol had projected. By comparison, Banco Solidario de Ecuador, from which BancoSol purchased the software, could complete an average pawn loan transaction in less than 15 minutes. More important, BancoSol's main competitor, Caja Los Andes, had a process that also took about one-third the time of BancoSol's.
- # **Optimistic projections:** The market research study did not adequately discount the potential demand, for a variety of important reasons. First, it assumed that the majority of potential clients who said they would purchase the product actually would behave accordingly, which is rarely the case. Second, the study did not sufficiently discount the inflated value people ascribe to their own jewelry because of its sentimental rather than true market value. Finally, the study did not qualify the potential market by its creditworthiness. As a result, although there was high initial demand for the Sol de Oro product (more than 550 solicitations), BancoSol rejected most of these applicants because of their blemished credit histories.

Because of these occurrences, BancoSol made some changes to its prototype, including the following:

- # Reduced the minimum loan size from 40 Bs to 20 Bs (\$US1 = 6.5 Bs);
- # Increased the maximum from 1,200 Bs to 1,800 Bs;
- # Reduced the sales volume and productivity targets; and
- # Is considering raising the maximum loan-to-value percentage from the current rate of 60 percent once it feels more comfortable with the product and if the average loan size continues to fall short of projections.

Four months into the pilot test, BancoSol had lent its new pawn loan product to 160 clients at an average loan size of \$160 and an average term of six months. The portfolio quality for the Sol de Oro product was very high, with only 0.2 percent of the outstanding balances more than one day past due. Still, the \$22,400 portfolio was way short of the \$130,000 BancoSol had hoped to reach by year's end and, more important, was short of the bank's break-even volume. Therefore, because of the rocky start and disappointing results, BancoSol decided to extend the pilot test another three months before expanding the product to other branches. BancoSol has also decided for the time being to limit expansion to only its regional offices in the major cities of Bolivia, rather than throughout its branch network nationwide.

## Lessons Learned

### *Market Research*

As a general rule of thumb, Murphy's Law dominates most phases of the new product development process, particularly pilot tests. It certainly prevailed in BancoSol's pilot test, as the backlash spawned by the crisis seemed disproportionately focused on the market leader. BancoSol did adjust its projections downward from the scale anticipated in the initial market research, but its adjustments were not conservative enough. Greater participation by more senior management in the qualitative parts of the market research might have helped avoid this problem. Clients' sentimental valuing of their jewelry was apparently evident in the focus groups, but the product champion was the only person from BancoSol who attended them.

Nonetheless, BancoSol quickly recognized that its targets were unattainable given its product design and thus modified the design accordingly. In other words, it used real-time market research (described in the NPD guide) to modify its product to better tailor it to the needs of its target clients.

### *Competitive Positioning*

The resistance BancoSol received from the Superintendency was mirrored by other banking peers that viewed pawn lending as an illicit activity. Most of the pawn lenders were loan sharks who charged high interest rates and operated "fly-by-night" establishments in seedy parts of town. Nonetheless, BancoSol was convinced it could "legitimize" a once-marginalized lending activity, much the way all microfinance was before the industry developed. BancoSol worked hard in its publicity campaign to project an image of security and legitimacy for pawn lending. Lowering the interest rates reinforced the image of changing the exploitive nature of pawn lending. Lower interest rates also helped BancoSol position itself well against its main competitor, Caja Los Andes, as Caja was able to underprice the bank in its other microloan products because of its lower operating costs.

### *Monitoring Procedures*

Though many external factors accounted for the disappointing results in both loan volume and transaction time, BancoSol did not set up a monitoring protocol to define how and when to intervene to modify the product accordingly. For example, the institution did not track the average approval time of the loan procedure, which could have been an impetus to take

action, as projected efficiency fell short of reality. Had BancoSol established specific benchmarks regarding approval time and a schedule for monitoring projected versus actual results, it would have had specific, time-sensitive criteria to prompt a response. Additionally, had BancoSol quantified the gains anticipated in internal control because of a more thorough loan analysis process, it might have been able to justify a cost–benefit tradeoff for maintaining the procedures. In fact, the more senior managers never overturned a decision made by the *tasador*, mostly because they lacked the expertise to determine the value of the pawned products, and because they had no clear rejection criteria. As a result, the additional cost of a protracted underwriting procedure was not offset by more heightened internal controls. In fact, the additional procedures proved to be little more than a rubber stamp of the *tasador*'s decisions. BancoSol never adjusted these procedures because managing the crisis took priority. Established pilot-test criteria might have made intervention more straightforward. Nevertheless, BancoSol did address the low sales volume (which was tracked as part of the regular portfolio of loan products) by making the product adjustments described above. Moreover, the bank has decided to modify its monitoring procedures during the extension of the pilot test.

## PRODUCT LAUNCH<sup>1</sup>

### Background Situation

**Kenya Post Office Savings Bank (KPOSB)** is a savings-driven MFI with a quasi-government ownership structure. Though it has its own dedicated branches, KPOSB builds off the network infrastructure of post offices throughout the country to provide alternative points of sale for its customer base. Its main product is Operational Savings Services (OSS), which is a standard passbook deposit account. The volume of OSS accounts has increased steadily over the years, but the rate of that growth and the decline in the average account balance prompted KPOSB to undertake market research. One particularly vexing problem was the number of savers who had maintained no more than the minimum balance to keep their accounts open, but recorded very few transactions, hinting at potential client dissatisfaction.

Intensive focus-group discussions with more than 250 clients, primarily in market areas, indeed revealed dissatisfaction with the OSS product. The main problems were the strict withdrawal limits, slow service, and high minimum balance required to earn interest. Based on this feedback and a product costing analysis spearheaded by MicroSave-Africa, KPOSB developed an initial prototype. It embarked on the product development process and a pilot test at its Kenyatta Market branch, as described below, which resulted in the ultimate roll-out of the product to additional branches.

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<sup>1</sup> This summary benefited greatly from the March 2001 trip report prepared by Michael McCord, senior technical advisor for *MicroSave-Africa*.

## **Process Undertaken**

In July 2000, KPOSB launched the pilot of the newly designed savings product, Bidii, in its Kenyatta Market branch. The preparation for the pilot was based on the MicroSave test methodology, though KPOSB did not follow the process meticulously, especially with respect to the implementation of the pilot. The major elements of the preparation process are outlined below.

### *Pilot-Test Protocol*

KPOSB established a time line of activities with clearly defined roles and responsibilities for the members of the product development team. The pilot-test objectives were clearly laid out, as was the discretionary authority granted by senior management.

### *Financial Projections*

The product development team developed financial projections using the MicroSave-Africa model. These projections were updated quarterly, based on pilot-test results, though some of the variables required more scientific evaluation. For example, variables regarding the amount of time customers spent in the bank branch to complete transactions were updated by casual observation, rather than by any rigorous time measurement and tracking during the pilot test.

### *Systems Installation*

The preparation, testing, and adjustment of the management information systems were invariably the weakest elements of the pilot test. KPOSB had decided to develop its own software application for the new product, though its information technology department had many other competing institutional demands. As a result, the system had not been fully tested before the launch of the pilot, nor were the “kinks” worked out before the launch.

### *Documenting Procedures*

KPOSB followed its tradition of systematizing its procedures in well-organized and descriptive guides and notes. These documents would provide a strong base to develop the final manual at the point of roll-out.

### *Developing Marketing Materials*

KPOSB did a thorough job of developing a marketing program to generate interest among its potential Bidii clients. However, internal marketing, inside the branch—including educating

OSS tellers and other non-Bidii staff about the new product, promoting it, disseminating basic information about it, and so on—was weak.

### *Training Staff*

KPOSB prepared a thorough training program that included a history of the development of the Bidii product and its strategic objectives. The only deficiency was that solely staff directly involved with delivery of the Bidii product (such as tellers and systems staff) were trained.

## **Key Results**

The key results of the pilot test can be summarized as follows:

1. **Slow growth:** The growth rate in the number of new accounts was less than half that projected. Seven months into the pilot test, the Bidii product had attracted 479 new savers, versus the 1,249 projected at the end of six months. Even when the projections were adjusted based on three months of actual results, the subsequent account openings did not meet the revised targets. This slowed growth resulted in the adjusted break-even point being pushed back twice, from an initial projection of 19 months to 22 months (at the three-month checkpoint) and then 40 months (at the six-month checkpoint).
2. **Increase in average deposit balance:** The average deposit balance was about double that projected. Though more than half the accounts were in the lowest ranges, a handful (11 accountholders, or 2 percent of the total) held large balances that skewed the average. Although KPOSB labeled these accountholders as “good” from a break-even standpoint, the concentration of volume in the hands of a few put the sustainability of these results in question.
3. **Serious computer software problems:** Because of the lack of system testing, the Bidii software suffered periods of total inoperability (for as long as six days) during the pilot. The system also had major defects, such as an inability to calculate interest (these calculations were done on a separate software system and manually input into the new Bidii software) and difficulty producing trustworthy bank statements. Another problem was that the information technology department was so short-staffed that only one programmer was available who knew the Bidii system in detail.
4. **Efficiency shortfall:** One of the features that was supposed to differentiate the new Bidii product from the traditional OSS account is that it was supposed to offer clients a more streamlined transaction. The actual results—2 minutes for each deposit or withdrawal—was off the projected goal of 1.5 minutes, but the results were not trustworthy because KPOSB did not measure its transaction time. Like BancoSol, KPOSB simply reported the amount of time it “thought” each transaction took on average. Given the absence of rigorous tracking, it is doubtful that efficiency gains were realized.

Despite these operational and financial problems, KPOSB decided to roll out the product to two other branches—Nakuru and Chaani. Preparations for this roll-out, aside from the systems testing and product adjustments, were adequate, and included training, fixed-asset purchases, the development of marketing and application materials, and so on. The product was launched on March 30, 2001, at a well-publicized opening.

## Lessons Learned

### *Internal Marketing*

KPOSB did an excellent job of external marketing, outside the branch, to its potential customers. However, its internal marketing to staff other than those directly involved with the Bidii product was weak. General operational staff were not trained in the purpose of the product or the objectives of the pilot test, nor were the pilot branches adequately prepared to help “sell” the new product. The teller window for the new Bidii product was differentiated from that of the OSS only by a letter about the new product attached to its respective window. Moreover, non-Bidii tellers were not trained to offer the new product in addition to the old, or even to direct inquisitive savers to the adjacent window. As a result, several hundred savers explicitly looking to open Bidii accounts were erroneously given standard passbook applications. The importance of marketing the new product *internally* is highlighted in the design phase of the NPD guide but should be emphasized throughout the product development process.

### *Pilot-Test Parameters*

Though KPOSB had established objectives for the pilot test overall, it did not follow MicroSave recommendations to set parameters beyond which the pilot would be paused. These are worst-case scenario boundaries that provide an objective decision point in the face of crisis situations. Without them, the momentum of a pilot test can keep it going, even when the results suggest suspending activity, as was the case with KPOSB when the systems were inoperable (at worst) and unable to calculate interest (at best). Moreover, that the break-even point has been pushed increasingly out to the future means that the financial viability of the product is still an open question.

According to MicroSave consultant Mike McCord, the roll-out decision “seem[ed] to have been a foregone conclusion from the start of the test.” KPOSB justified the decision as a response to the dissatisfaction many savers expressed with having a “domiciled” account (one that was accessible only at the pilot branch). Though the results at the new branches have been more favorable than the first, the questions surrounding the software and the product dynamics strongly call for an extension of the pilot test rather than further roll-out. More objective “no-go” criteria in the pilot-test protocol might have made this choice more obvious. It appears KPOSB is in danger of repeating this mistake, as no comprehensive roll-out plan has been prepared. Such a plan would include a marketing plan (such as product

adjustments for specific target groups), full projections, operational outlines, and other internal preparations (buy-in, training, and the like).

**ANNEX A**  
**INSTITUTIONAL DIAGNOSTIC**



## GUIDE TO NEW PRODUCT DEVELOPMENT INSTITUTIONAL DIAGNOSTIC

The purpose of this institutional diagnostic is twofold:

- To assess the microfinance institution's (MFI's) capacity to undertake new product development, and
- To determine how the new product fits into the MFI's competitive strategy and existing portfolio of products.

The following diagnostic is designed to facilitate the use of *The MBP Guide to New Product Development* produced under the Microenterprise Best Practices (MBP) project.\* The guide walks an MFI through the phases of a systematic development process to design, pilot-test, and launch new products. This guide takes a *commercial* approach to microfinance, with its dual objective of scale and financial sustainability. In other words, new product development must consider both the **institutional capacity** (including staff, risk management and information systems, organizational structure, and institutional culture) and **market situation** (including client needs, competition, and macroeconomic environment). Please reflect on both of these aspects by completing the diagnostic below. The main areas covered in this diagnostic are:

<b>I. INSTITUTIONAL CAPACITY</b>	<b>A-4</b>
A. STRATEGY.....	A-4
B. FINANCIAL VIABILITY.....	A-5
C. ORGANIZATIONAL CULTURE/STRUCTURE.....	A-6
D. HUMAN RESOURCES .....	A-7
E. DELIVERY CHANNELS – BRANCH NETWORK .....	A-8
F. SYSTEMS.....	A-8
 <b>II. MARKET SITUATION</b>	 <b>A-10</b>
A. MARKET RESEARCH .....	A-10
B. PRODUCT OVERVIEW.....	A-11
C. NEW PRODUCT DEVELOPMENT .....	A-13

*At the end of each section in Part I: Institutional Capacity, rank on a scale of 1 to 4 how prepared you think your institution is for product development: 1= outstanding, 2 = well-prepared, 3 = could use some work, 4 = poorly prepared.*

*At the end of the diagnostic, your institution should focus on the two or three weakest areas before embarking on the product development process.*

*In the questions that follow, if you do not feel that a yes (Y) or no (N) accurately captures your institution's response, please feel free to elaborate on your answer. The "Y" and "N" responses are included mainly as prompts to assist you with the ranking of each section.*

\* Sources consulted: CAMEL, Calmeadow Institutional Diagnostic, CGAP diagnostic .

# I. INSTITUTIONAL CAPACITY

## A. STRATEGY

### 1. Business plan

- *Does your institution have a business plan or strategic plan?* Y / N  
(Date of most recent completed plan: \_\_\_\_\_)
- *Does the business plan include product development?* Y / N
- *Is the budget process, including funds allocated for product development, tied to goals stated in the business plan?* Y / N

### 2. Projections

Specify year

Specify year

As of year-end:	Present: <u>XXXX</u>	In 3-5 years <u>XXXX</u>
1. # of active clients		
2. # of accounts		
3. # of staff		
4. # of branches		
5. Total outstanding portfolio*		
6. Outstanding savings deposits*		
7. Average loan balance per client*		
8. Average savings balance per client*		
9. Level of delinquency		

\* if applicable

### 3. Organizational approach

*Is your institution commercially oriented (market rates of interest, private sources of capital, strong treatment of delinquency or fraud) or donor-driven (high dependence on subsidized sources of capital)?* Y / N

Good product development should be well-aligned with the competitive strategy and overall business plan of the institution. In other words, the product development should advance the goals laid out in the institution's business plan. Donor dependence creates uncertainty about the institution's longevity (see "Financial Viability" section) and can divert attention from market factors.

**RATING (1-4): STRATEGY \_\_\_\_\_**

**B. FINANCIAL VIABILITY**

## 1. Liquidity management

*Have there been periods of illiquidity that caused financial services to deteriorate? Y / N*

*Has the MFI ever had difficulty meeting salary payments or other operating expenses? Y / N*

*Is there active asset-liability management? Y / N*

Adding new products typically adds the challenge of liquidity management. Even improving an existing product can increase demand, affecting the liquidity of the MFI.

## 2. Portfolio quality

Delinquency = \_\_\_\_\_

(outstanding balance of loans w/ payments >30 days past due)/ outstanding portfolio

*Over time, has portfolio quality \_\_\_\_declined? \_\_\_\_ improved? \_\_\_\_ remained constant?*

*Does your institution have a prudent provision policy based on historical repayment performance and portfolio risk? Y / N*

If there currently are portfolio quality issues, introducing a new product might exacerbate problems. However, reexamining and relaunching a product that is suffering from high delinquency might actually *solve* the problem.

## 3. Operational efficiency : total expenses / average portfolio \_\_\_\_\_

*Over time, has efficiency \_\_\_\_declined? \_\_\_\_improved? \_\_\_\_remained constant?*

Poor efficiency (high expenses as a percentage of portfolio) *could* be a justification for product development if its cause is underutilized capacity. However, if institutional inefficiency is related to structural problems (such as bureaucratic decision-making, unclear delineation of responsibility or job definitions, minimal automation, and so on), new product development may exacerbate the problem.

## 4. Growth potential

a. Self sufficiency : operating income/ operating expenses = \_\_\_\_\_

b. Profitability: return on assets (ROA) = \_\_\_\_\_% return on equity (ROE) = \_\_\_\_\_%

c. Reliance on subsidized funds/ability to attract commercial sources of funds: grants/donations as % of total capital: \_\_\_\_\_

Self-sufficiency and profitability allow an MFI flexibility in its business operations. If an MFI is not self-sufficient, the success of product development depends on continued donor support. Moreover, most new product development will take time to break even, adding financial pressure on an institution.

**RATING (1-4): FINANCIAL VIABILITY \_\_\_\_\_**

**C. ORGANIZATIONAL CULTURE/STRUCTURE**

## 1. Customer service

*Does your organization have a "customer service" orientation (for example, periodic focus groups, client satisfaction surveys, exit interviews, and efforts to streamline service delivery)? Y / N*

## 2. Innovation

*Does your organization value innovation (allows experimentation, encourages questioning of protocol, maintains open channels of communication)? Y / N*

## 3. Internal communication

*Does your organization have channels of communication that extend both vertically (from management down through staff) and horizontally (across departments), such as:*

- staff meetings                      \_\_\_\_\_Y \_\_\_\_\_N
- newsletters/ memos              \_\_\_\_\_Y \_\_\_\_\_N
- e-mail system                      \_\_\_\_\_Y \_\_\_\_\_N
- intranet                              \_\_\_\_\_Y \_\_\_\_\_N
- other \_\_\_\_\_

*Does the management of your institution have ways of obtaining real-time feedback from front-line staff (such as branch managers, loan officers, or tellers)? Y / N*

A culture that emphasizes customer service, values innovation, and allows free flow of information creates an environment conducive to product development. Strong communication channels furthermore provide an important link for client feedback, critical for good product development.

## 4. Procedures

*Are there standard operating procedures that are well-documented in a manual? Y / N*

*How often is this manual updated? \_\_\_\_\_*

*Is there conformance to these standards at each branch (for example, for lending institutions, treatment of delinquency and loan approval)? Y / N*

*Are the lines of authority and accountability clearly defined (are there responsibility centers based on cost, profit, and so on)? Y / N*

The product development process will likely use existing procedures as a starting point. If the manuals are outdated or if there is poor conformity throughout the branch network, there will be extra work and cost involved in the product development process. Similarly, if job functions are not well-defined, incorporating a new product might add confusion and delay ultimate roll-out.

**RATING (1-4): ORGANIZATIONAL CULTURE\_\_\_\_\_**

**D. HUMAN RESOURCES**

Indicator (as of date: _____)	Current Level (actual)	Target/Max. Capacity (estimated)
1. Staff characteristics		
Current # of FTEs (full-time equivalents)		
Turnover rate (staff who left over a given period average over the same time period)		
% of front-line or sales* staff to all staff		
2. Productivity		
# of clients/loan officer		
# of clients/staff member		
3. Experience/education level/training		
• Field staff		
• New product development team		
4. Compensation/incentives		
Incentives (% of total salary)		
Performance evaluation: Is it undertaken? _____ Y _____ N		
* "sales" refers to both loan officers and tellers for lending and savings operations, respectively		

*Institutions with low turnover reduce training costs and provide stability important for product development. Low levels of productivity and a low ratio of front-line personnel to total support staff suggest that an institution likely has the excess capacity (from a human resources perspective) to undertake new product development. Required experience and skill levels of staff will vary by product, but there must be available managerial capacity to manage the product development process. Finally, performance-based compensation systems can help promote successful product launches, as they provide incentives to achieve desired objectives, in terms of not only volume (such as number of clients and portfolio size) but quality (repayment, customer satisfaction, desertion, and so on) as well.*

**RATING (1-4): HUMAN RESOURCES \_\_\_\_\_**

## E. DELIVERY CHANNELS – BRANCH NETWORK

Total # of branches: \_\_\_\_\_. All branches will be evaluated to determine the best location for the pilot test.  
For potential pilot-test locations, fill out the table below.

Branch	Branch 1		Branch 2		Branch 3		Branch 4	
	actual	max.	actual	max.	actual	max.	actual	max.
Total portfolio								
Total deposits								
Age								
# of staff								
Distance from HQ								

## F. SYSTEMS

### 1. State of automation

*Is the head office linked to the field offices in any automated way?* \_\_ \_Y \_\_ \_N

*To what extent is the processing of financial services computerized? semi-automated?*  
*back office:* \_\_\_\_\_ *front-line sales:* \_\_\_\_\_

### 2. Performance

*Are staff satisfied with how the systems function? Are the systems:*

*a) "user-friendly"? Y / N    b) reliable? Y / N    c) useful in accomplishing their jobs? Y / N*

*Has there ever been any breach in the security of the systems?* \_\_ \_Y \_\_ \_N

*Is there unused capacity in the current systems?* \_\_\_\_\_Y \_\_\_\_\_N

*Are the systems easily adaptable to accommodate new products?* \_\_ \_Y \_\_ \_N

The state of automation and the performance of the systems are indicators of how quickly and efficiently staff can process and retrieve data critical in both the product design and testing phases. Younger MFIs may not be fully automated (nor have electronically interconnected branches), but some product development may require higher levels of automation.

### 3. Information

*Do the systems process and produce information in an efficient, timely manner?* Y / N

*Do the systems produce information that is accurate?* Y / N

*Has the institution built up a database on clients from intake to exit?* Y / N

Accessibility to reliable information is a key element of market research and pilot testing.

4. Internal controls

*Are there established procedures for monitoring and auditing financial operations?* Y / N

*Are duties segregated among different positions (linked to staff capacity)?* Y / N

*Are there sufficient physical controls (guards, locks, and so on) to maintain security?* Y / N

*How often are external auditors invited to review your institution?*

New products can present an opportunity for fraud, as staff might be vulnerable while they are still unfamiliar with new procedures, especially if the level of activity (such as in sales) is greater than anticipated.

**RATING (1-4): SYSTEMS \_\_\_\_\_**

## II. MARKET SITUATION

### A. MARKET RESEARCH

If there is any question below that you cannot answer, leave it blank and consult the "Market Research" section in *The MBP Guide to New Product Development* (the NPD guide).

#### 1. Market research

*Do you know what specific needs or market niche you are trying to satisfy with your new product? Y / N*

*Do you know your institution's "core competencies" and "position" vis-à-vis its competitors? Y / N*  
*In other words, what benefits do you offer clients that would have them choose your institution over the competition?*

*Has your institution undertaken a formal marketing plan? Y / N*

#### 2. Client perspectives

*Does your institution conduct "exit interviews" for clients who stop using your services? Y / N*

*Has your institution ever held a focus group or other type of client-feedback session? Y / N*

#### 3. Market definition

*Do you know your institution's potential market size? Y / N*

*Have you segmented the market and elaborated on the characteristics (size, needs, wants, and so on) of the target you are trying to reach with your new product? Y / N*

*Does your organization have a strategy to expand its outreach? Y / N*

#### 4. Competition

*Have you analyzed the attractiveness of the products offered by your institution against those offered by the competition? Y / N*

*Have you thought about the likely reaction of the competition to your new product offering? Y / N*

*Have you analyzed the strengths and weaknesses of your institution vis-à-vis the competition? Y / N*

## B. PRODUCT OVERVIEW

## 1. Description of Product Portfolio

[illegible]

## 2. Competitive Analysis of Products

Product	Target Segment	Primary Benefits	Competitive Alternatives	Borrower Costs (transaction costs, including waiting time)	Delinquency Rate	Desertion Rate (default + nonrenewals)*

\* For savings accounts, one can measure the desertion rate as the rate of account closure, which equals the number of closed accounts as a percentage of all accounts.

## C. NEW PRODUCT DEVELOPMENT

This section is targeted to those who have begun the process of new product development and are trying to determine where their institutions are in the new product development process. Answering the questions should help orient the institution to where it is in the new product development process and, as result, define which sections of the guide are most relevant.

- a. Does your institution have a new product idea that it is considering testing? If yes, list below and continue to question # 2. If no, consult *New Product Development Technical Note I: Evaluation & Preparation*.
- b. If you have a new product idea, has your institution done the following?

	If yes, continue to the next question	If no, consult the indicated section of the NPD guide
<b>Designing the Product Prototype</b>		
a. Discussed the strategic vision for product		1B – Internal Preparation
b. Assembled multidisciplinary product team		
c. Segmented the market to define the target		2A – Market Research
d. Analyzed the competition		
e. Designed the initial terms		2C – Costing and Financial Analysis
f. Estimated costs to institution and borrower		
g. Projected revenues and/or cash flows		
h. Finalized the prototype		
<b>Pilot Testing</b>		
i. Defined the objectives of the pilot test		3A – Pilot-Test Purpose and Design
j. Designed the pilot-test protocols		
k. Prepared the pilot-test site		
l. Began the pilot test		3B – Pilot-Test Roll-out and Evaluation
m. Monitored the pilot test		
n. Evaluated the results of the pilot test		
o. Made a decision about launching the product		
<b>Launching the Product</b>		
p. Developed a marketing strategy		4A – Integrated Marketing Strategy
q. Trained staff		
r. Developed an implementation plan		4B – Implementation Plan
s. Upgraded MIS systems		
t. Launched the product		

**ANNEX B**  
**PHASE EVALUATION**



## GUIDE TO NEW PRODUCT DEVELOPMENT: PHASE EVALUATION

The purpose of this phase summary is to evaluate the usefulness of the Microenterprise Best Practices (MBP) *MBP Guide to New Product Development*. MBP would like you to evaluate each of the phases of the new product development (NPD) process (design, testing, and launch) as your MFI completes them. Your MFI is required to complete this sheet for all of the NPD phases, even if you only used the guide for specific areas. For example, if you started using the guide *after* the product design was complete, please review the guide and comment on the recommended steps and exercises in the design and development phase, based on your experience with new product development. Please feel free to use additional pages if necessary.

Phase: (Design, Testing, or Launch)\_\_\_\_\_

Was the guide helpful in achieving the desired outcome of this particular phase? Please comment on both the format and content.

What exercises did not work?

Which exercises were most helpful?

What exercises were missing? (Please include entire topic areas not covered and/or worksheets that you wish had been more thorough or comprehensive in their approach.)

**ANNEX C**  
**PROCESS EVALUATION**



## **GUIDE TO NEW PRODUCT DEVELOPMENT PROCESS EVALUATION**

The purpose of this questionnaire is to evaluate the usefulness of the technical assistance that was provided to users in *The MBP Guide to New Product Development* produced under the Microenterprise Best Practices (MBP) project. Please comment on the usefulness of the initial orientation and the ongoing technical assistance. There is also space for you to comment on additional support that you would have liked to receive in testing out the guide.

Was the one- to two-day orientation useful? (Did you feel you knew how to use the guide after the orientation was completed?)

Was the ongoing technical assistance (telephone calls, follow-up visits) helpful?

What would you have changed to take better advantage of the new product development guide?